

Message Text

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C O N F I D E N T I A L STATE 294713

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, PE

SUBJECT: GOP REQUEST FOR U.S. FINANCIAL SUPPORT

REFS: (A) LIMA 10658 (B) LIMA 10571

1. TABLE A PRESENTS THE IMF'S QUARTERLY EXCHANGE FLOW PROJECTIONS FOR PERU IN 1978 UNDER THE TERMS OF THE STAND-BY AGREEMENT. THE AGREEMENT IS STRUCTURED SO THAT CHANGES IN NET INTERNATIONAL RESERVES ARE A RESIDUAL OF THE PROJECTIONS FOR THE BANKING SYSTEM. BY CONTRAST, TABLE B PRESENTS THE EXCHANGE FLOW PROJECTIONS THE GOP HAS PROVIDED BOTH TO YOU AND TO THE COMMERCIAL BANKS, ARRANGED TO CORRESPOND TO THE IMF TABLE.

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2. TABLE A (MILLIONS US DOL) Q-1 Q-2 Q-3 Q-4 TOTAL

(1) CHANGE IN NET RESERVES - 2 -40 - 5 -103 -150
(2) IMF FLOWS UNDER STAND-BY 12 13 12 13 50
(3) SHORT-TERM SWAPS. NOT -13 -10 -- -- -23
ROLLED OVER
(4) SANTO DOMINGO (LAFTA) -23 -- -- -- -23

(5) AMORTIZATION OF DOLS 387 -- -- -- -47 -47
 MILLION 1976 BOP LOAN
 (6) CHANGES BEFORE FINANCING -26 -37 7 -137 -193
 (SUM OF LINES 1-5)
 7. FINANCING REQUIREMENTS
 TO KEEP GROSS RESERVES
 AT YEAR-END
 LEVEL 26 37 -7 137 193

(8) SANTO DOMINGO (LAFTA) -- -- 23 -- 23
 (9) RESIDUAL FINANCING BY
 BANKS OR OTHER EXTERNAL
 FINANCE (LINE 7 MINUS
 LINE 8) 26 37 -30 137 170
 (10) LESS AMORTIZATION .. (--) (--) (--) (47) (47)
 (11) NET NEW LOANS (26) (37) (-30) (90) (123)
 (NOT NECESSARILY NEW
 EXPOSURE)

3. EXPLANATION: LINE (1) ASSUMES PAYMENT OF DOLS 62
 MILLION TO USSR AS SCHEDULED. LINE (3) INCLUDES REPAY-
 MENTS OF DOLS 3 MILLION TO BANCO SANTANDER AND DOLS
 20 MILLION TO BANCO CENTRAL DO BRAZIL (REF B). LINE
 (4) IS OBLIGATORY LAFTA PAYMENT, AND LINE (8) IS A
 RENEWAL OF THIS CREDIT IN THE THIRD QUARTER. LINE
 (9) REPRESENTS THE LEVEL OF EXTERNAL FINANCING REQUIRED
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TO MAINTAIN THE YEAR-END LEVEL OF GROSS RESERVES. LINES
 (10) AND (11) ARE COMPONENTS OF LINE (9).

4. TABLE B Q-1 Q-2 Q-3 Q-4 TOTAL

(1) .. -103 -102 32 -156 . -329
 (2) .. 12 13 12 13 . 50
 (3) .. -13 -10 -- -- . -23
 (4) .. -23 -- -- -- . -23
 (5) .. -- -- -- -47 . -47
 (6) .. -127 -99 44 -190 . -372

 (7) .. 120 99 -44 190 . 372
 (8) .. -- -- 23 -- . 23
 (9) .. 127 99 -67 190 . 349
 (10) .. (--) (--) (--) (47) . (47)
 (11) .. (127) E99) (-67) (-143) . (302)

5. ACCORDING TO THE IMF, THE CHANGES IN PERU'S NET
 RESERVES MUST NOT EXCEED THOSE LISTED IN LINE (1) OF
 TABLE A IF THE GOP IS TO MEET THE STANDBY TARGETS.
 IF PERU'S NET RESERVE CHANGES WERE TO APPROXIMATE

LINE (1) OF TABLE B, THIS WOULD INDICATE NON-COMPLIANCE WITH THE STANDBY AND IMPLY A NEED FOR RENEGOTIATING THE AGREEMENT. THE IMF SPECULATES THAT A POSSIBLE REASON FOR THE DIFFERENCES IN THE TWO TABLES COULD BE THAT TABLE B WAS PREPARED BY PEOPLE WHO HAD NOT

PARTICIPATED IN THE STANDBY NEGOTIATIONS AND DID NOT TAKE ITS TARGETS INTO ACCOUNT IN THEIR PROJECTIONS (I.E. THE DIFFERENCE WAS NOT DELIBERATE). THE IMF STAFF (KOENIG) PLANS TO MEET WITH THE GOP (EITHER HERE OR IN LIMA) NEXT WEEK TO CLARIFY THE DIFFERENCES.

6. YOU MAY WISH TO INFORM APPROPRIATE GOP OFFICIALS OF THE APPARENT DISCREPANCY BETWEEN THE FINANCIAL
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DATA GIVEN TO YOU AND THE COMMERCIAL BANKS AND THE IMF STANDBY'S NET FOREIGN RESERVE TARGETS. (FYI: AT THIS TIME USG WOULD BE WELL ADVISED NOT TO GET INTO THE MIDDLE OF A TECHNICAL DISCUSSION BETWEEN THE FUND AND THE GOP ON THIS ISSUE. END FYI.)

7. THE IMPLICATIONS FOR POSSIBLE SUPPORT ARE THAT IF TABLE A IS ACCURATE AND THE USSR DOES ROLLOVER ITS DOLS 62 MILLION DUE IN JANUARY, THEN THERE WOULD APPEAR TO BE LITTLE OR NO NEED FOR BRIDGE FINANCING SINCE THE CHANGE IN NET RESERVES IN THE FIRST QUARTER WOULD BE PLUS DOLS 60 MILLION INSTEAD OF MINUS DOLS 2 MILLION AND THERE WOULD BE NO FINANCING REQUIREMENT IN THE FIRST QUARTER TO MAINTAIN GROSS RESERVES (LINE 7).

8. CRITICAL POINT UNDER TABLE A PROJECTION IS WHETHER SHORT-TERM SWAPS WILL IN FACT BE ROLLED OVER. SLIPPAGE WOULD NOT BY ITSELF AFFECT COMPLIANCE WITH IMF PROGRAM, BUT IT COULD RESULT IN NEED FOR NEW EXTERNAL FINANCING. REQUEST, THEREFORE, THAT YOU CHECK WITH CENTRAL BANK TO DETERMINE WHETHER ANY OF THE ASSUMED ROLLOVERS ARE IN DOUBT. YOU SHOULD ALSO CHECK ON PROSPECTS FOR MEW SWAPS AND NEW ROLLOVERS DURING THE FIRST HALF OF 1978.

9. IF, ON THE OTHER HAND, TABLE B IS ACCURATE, THEN THERE WOULD BE A NEED FOR DOLS 100 MILLION BRIDGE FINANCING IN THE FIRST QUARTER. HOWEVER, THIS WOULD ALSO IMPLY THAT THE GOP HAD FAILED TO IMPLEMENT ITS PROGRAM UNDER THE STANDBY AND U.S. ASSISTANCE COULD BE INTERPRETED AS UNDERCUTTING THE STABILIZATION PROGRAM.

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10. THEREFORE, GIVEN OUR PRESENT UNDERSTANDING OF THE SITUATION, IT WILL BE VERY DIFFICULT FOR US TO CONSIDER POSSIBLE U.S. ASSISTANCE UNTIL WE HAVE A BETTER HANDLE ON THE NATURE OF THE PROBLEM.

11. WE ALSO NEED SPECIFIC INFORMATION ON WHETHER USSR HAS AGREED TO PROVIDE ROLLOVER, OF HOW MUCH AND ON WHAT

DATE/S. AS CAN BE APPRECIATED BY ALL CONCERNED, WE CANNOT CONSIDER PROVIDING BRIDGE FINANCING TO GOP ENABLING IT TO DISCHARGE DEBT TO RUSSIANS FOR ARMS.

12. WITH RESPECT TO FOREIGN MINISTER'S RECENT INQUIRIES, AMBASSADOR MAY INFORM HIM THAT GIVEN THE APPARENT DISCREPANCIES DESCRIBED ABOVE, WE WOULD NEED CLARIFICATION OF CURRENT SITUATION IN ORDER TO DEVELOP RESPONSE TO HIS REQUEST FOR U.S. ASSISTANCE. WE WOULD HOPE THAT IF GOP SENDS REPRESENTATIVES TO WASHINGTON FOR DISCUSSIONS WITH IMF, THEY WILL CONTACT US AS WELL. ALTERNATELY, IF KOENIG GOES DOWN TO LIMA, DISCUSSIONS COULD BE HELD WITH EMBASSY AFTER TALKS WITH FUND. CHRISTOPHER

DISSIMINATION COORDINATED WITH SS/O PER MR. DAVID SUMMERS.

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